Study the effect of corporate governance guidelines adopted in the stock price reaction in the Tehran Stock Exchange
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ABSTRACT
Companies such as Enron bankruptcy and scandal Arthur Andersen and WorldCom in the United States and other large companies such as SICO, Lyvsvt, like fear and Teko in other countries in the light of weak corporate governance, companies need to establish a proper governance system as one of the main issues raised in all countries. It was also much concern for international organizations, such as the International Monetary Fund called for the improvement of corporate governance in companies. Maximizing shareholder wealth, moral and social responsibilities tasks can be considered a company’s most important goals. One of the factors that have a significant effect on the proper implementation of the principles of corporate governance is goals. About three hundred years ago Adam Smith in The Wealth of Nations, to discuss resolution of the directors of the companies raised their ownership, have mechanisms for balance between the interests of owners or investors and managers are offered. This study examines the impact of the adoption of a code of corporate governance in response to the stock price in the Tehran Stock Exchange has been done. Among its 160 employees (population), 123 subjects were selected. The results showed that the adoption of corporate governance guidelines in response to the stock price had an effect on the Tehran Stock Exchange.

KEY WORDS: Corporate governance guidelines, the stock price, the Tehran Stock Exchange

INTRODUCTION
Today the term corporate governance is a considered and developed concept in the business world. Corporate governance is the foundation of relations of corporate with interest groups. Like many of the topics discussed and developed, there are various perceptions and definitions of corporate governance; the main difference in attitudes is related to the scope of relations of company with stakeholders. Corporate governance at the micro level is to achieve the company's objectives, and the macro level considers optimal allocation of society’s resources. History of corporate governance in a way that is today is returned in the 1990s and the occurrence of financial scandals in some of the big companies. Despite some differences, it seems that the main foundations of corporate governance in developed and developing countries have passed the path of convergence over time. To develop desirable corporate governance pay attention to domestic and external factors as well as economic, political and cultural conditions of each country is essential. Today turbulent and rapidly growing markets of securities in the world rely on supportive complex systems that improve governance system in public joint stock companies. The main features of this governance system include (1: ensure the minority shareholders that they have received reliable information about the value of the company and company managers and other large shareholders have not betrayed them and not abuse them and 2) encourage managers to maximize the value and benefits of the company instead of dealing with their personal goals, (Mashayekh, 1388).

According to some experts, regulation is necessary in the field of corporate governance, while others believe that the effectiveness and costs of implementing rules and limiting the innovation, represents the regulation less useful in this area. The ownership structure of public joint stock companies in the current situation of financial institutions largely adapted to the position of inner strength. The influence of major stakeholders, including: government and quasi-government on Iranian public joint stock companies is evident. Even given the current process of privatization, this situation is unlikely to change in the near future. Large state-owned enterprises that in recent years their stock is vested in the people mainly through the stock exchange, still directly or indirectly are controlled by the state. So, it can be concluded that the issue of representation (at least from this point of view) is pale in public joint stock companies of Iran. On the other hand
The necessity of corporate governance is resulting from the conflict of interests of participants or stakeholders in the corporate structure. Conflict of interests which is interpreted as representing issue, is due to two main causes: First, each of the participants have different goals and preferences and the other that each one has no complete information about the actions, knowledge and preferences of others. Obviously this resolution, given the absence of effective enforcement mechanisms of corporate governance, leads that managers act for their own interests and not the interests of shareholders (Berel & Means, 1932).

A look at recent researches shows that each of researchers has studied the corporate governance from different perspectives. Gillan and Starks (1998) define corporate governance as the system of rules and the factors that control the company's operations. These researchers suggest that the corporate governance is including structures that make clear the boundaries of the company's activities. This series of structures including participants in activities such as directors, employees, suppliers of capital, the efficiency of each of the participants, and the framework of activities of each one. Corporate governance is a way that ensure corporate sponsors that they will achieve their investment returns. To better understand the concept of corporate governance, it can be explained from two perspectives: macro or whole oriented and micro or detail oriented. From the micro perspective, corporate governance involves a set of relationships between the company's management, its board, its shareholders and other stakeholders. These relations that cover different laws and motivators form the structure through the specified objectives and the means to achieve those objectives and supervising the implementation. Therefore, the basic principles of corporate governance include: Transparency of corporate structures and operations, accountability of managers and board members towards shareholders, and corporate responsibility towards employees, lenders, suppliers of goods and local communities where the company operates. From the macro perspective, good corporate governance means the amount that companies are managed in an open and honest space. Capital efficiency, renewal of industrial structures of countries and finally public wealth of the community are important to gain the trust of the market. It is noteworthy that in micro and macro definition, the concept of transparency plays a major role. In the macro aspect, transparency in the company creates trust among the suppliers of capital. In the micro aspect, transparency creates the overall trust in the macroeconomic. In both cases, the transparency will lead to efficient allocation of capital. Board members and other leaders in corporate governance are using the external service tools, increasingly to guide training, work ethic and accounting, far from corruption. According to the information provided in the Theoretical framework of research, the research conceptual model can be seen as the chart below.

**A review of the literature:**

The findings of Mashayekh and Harraf Amughin (2001) in investigating the relationship between firm size and volatility of stock returns in different market conditions showed that when market conditions are not considered there is a positive and significant(weak) correlation between the firm size and volatility of stock returns and when market conditions are involved in the model, this relationship is also positive and significant. The results indicated that market conditions have on impact on the relationship between firm size and volatility of stock returns (beta). This study investigated the impact of firm size on the volatility of stock returns in different market conditions in the Tehran Stock Exchange during the period 1984 to 1998. In the sampling, all the companies listed in the Tehran Stock Exchange, except for banks, investment companies and leasing, were considered.

The findings of Mousavi and Rahmani (1998) entitled the study of the relationship between profitability and efficiency with respect to life cycle and the size of the company, the variables life cycle and company size are effective factors in the relationship between profitability and efficiency, and increase the adjusted coefficient of determination. In this research the information needed were studied during the 1383 to 1387. Time and cross-sectional data integration method was used to check the hypotheses.

Namazi and Kermani (1387) in their study on the impact of ownership structure on the performance of companies listed in Tehran Stock Exchange concluded that there is a significant relationship between the ownership structure of companies and their performance.

Hassas Yeganeh, Moradi and Eskandar (1997) performed a research on the relationship between institutional investors and the value of company and in their study, different attitudes (i.e. Effective Monitoring Hypothesis and convergence of interest’s hypothesis) about institutional investors during the period 1377-1383 were examined. Their research results indicate that there is a positive relationship between institutional investors and the value of the company.

In this context, Mashayekh and Esmaili (1995) investigated the relationship between earnings quality and two characteristics of corporate governance (the number of outside directors and ownership percentage of board
Research Methodology:

This study is an applied research. The present study is also descriptive-casual in terms of nature. Its main purpose is to determine whether announcing the corporate guidelines affect the stock price?

A statistical population is a collection of individuals or units that have at least one common trait. A common trait is a trait that is common between all elements of a population and distinct the statistical population from other populations (Azar and Momeni, 1383). Since the accuracy of the study is greatly influenced by the society in which the sample is selected, so selection of the population is very important. The research population includes the companies listed in the Tehran Stock Exchange. The number of these companies was 160 companies that 123 companies were selected as the sample by using Morgan table. In this study, the method for collecting data and information related to literature and assumptions is library method and go to the archives and the studied companies, and also statistical data has been done through the audited financial statements of the sample companies and questionnaire. According to the Study Type and its variables and given that the main responsibility of the companies is eventually returned to senior executives and the most complete information about the mentioned companies is in the hands of the managers, so the questionnaires were given specifically to senior managers of the companies and the required information was gathered.

Research Findings:

4.1 Normality of the distribution of research data:

The Kolmogorov - Smirnov was used to assess the normality of data distribution. We select the null hypothesis in this way that the data is normal and the Kolmogorov-Smirnov test was used at the significant level of 5% that the results of this analysis are presented in Table 1. As can be seen for all research variables, the probability level is higher than 0.05 that the hypothesis of the data normality is confirmed. Another way is to look at Kolmogorov-Smirnov Z value in the table. If its value be smaller than +1/96 and larger than -1/96, with 95 percent confidence, we can conclude there is no difference between observed and expected frequencies. In other words, the population distribution is normal. Thus, by proving the normality, to check the relationship between variables, we use the Pearson parametric test and we use parametric tests for average tests.
Table 1: Test results of Kolmogorov–Smirnov for research variables.

<table>
<thead>
<tr>
<th>Statistical indicators variable</th>
<th>Z statistic of KS</th>
<th>confidence level</th>
</tr>
</thead>
<tbody>
<tr>
<td>The reaction in stock prices</td>
<td>0.767</td>
<td>0.598</td>
</tr>
</tbody>
</table>

4.2. Pearson correlation test:

In this section, we test research hypotheses by doing suitable analysis. First, we investigate the relationship between each of the research variables by using the Pearson correlation coefficient.

4.2.1—there is a significant relationship between announcing the company’s guidelines and reaction in the stock price.

The Pearson correlation coefficient was used to test the above hypothesis and we consider null hypothesis as there is no significant linear relationship between announcing the company's guidelines and reaction in the stock price ($\rho$ is the correlation coefficient) which is shown as below. By doing the test at 0/05 the results are calculated as follows.

$H_0: \rho = 0$

$H_1: \rho \neq 0$

Table 2: Correlation coefficient between announcing the company’s guidelines and reaction in the stock price.

<table>
<thead>
<tr>
<th>Variable criteria</th>
<th>Statistical indicators Predictive variable</th>
<th>correlation coefficient</th>
<th>Probability</th>
<th>number of samples</th>
</tr>
</thead>
<tbody>
<tr>
<td>reaction in the stock price</td>
<td>announcing the company’s guidelines</td>
<td>0.971</td>
<td>0.001</td>
<td>123</td>
</tr>
</tbody>
</table>

According to Table 2, we see that the sample correlation coefficient is equal to 0.971 and the significant level is equal to 0.000 which is less than significant level of the test (0/05), therefore, the null hypothesis of the test is rejected and it is concluded that the test is significant and there is a significant linear relationship between these two variables of test. Also, we see that the correlation coefficient of sample is positive that this represents a direct relationship between announcing the company's guidelines and reaction in the stock price.

4.2.2—there is a significant relationship between communication with shareholders and reaction in the stock price.

The Pearson correlation coefficient was used to test the above hypothesis and we consider null hypothesis as there is no significant linear relationship between communication with shareholders and reaction in the stock price ($\rho$ is the correlation coefficient) which is shown as below. By doing the test at 0/05 the results are calculated as follows.

$H_0: \rho = 0$

$H_1: \rho \neq 0$

Table 3: Correlation coefficient between communication with shareholders and reaction in the stock price.

<table>
<thead>
<tr>
<th>Variable criteria</th>
<th>Statistical indicators Predictive variable</th>
<th>correlation coefficient</th>
<th>Probability</th>
<th>number of samples</th>
</tr>
</thead>
<tbody>
<tr>
<td>reaction in the stock price</td>
<td>communication with shareholders</td>
<td>0.670</td>
<td>0.001</td>
<td>123</td>
</tr>
</tbody>
</table>

According to Table 3, we see that the sample correlation coefficient is equal to 0.670 and the significant level is equal to 0.000 which is less than significant level of the test (0/05), therefore, the null hypothesis of the test is rejected and it is concluded that the test is significant and there is a significant linear relationship between these two variables of test. Also, we see that the correlation coefficient of sample is positive that this represents a direct relationship between communication with shareholders and reaction in the stock price.

4.2.3—there is a significant relationship between firm size and reaction in the stock price:

The Pearson correlation coefficient was used to test the above hypothesis and we consider null hypothesis as there is no significant linear relationship between firm size and reaction in the stock price ($\rho$ is the correlation coefficient) which is shown as below. By doing the test at 0/05 the results are calculated as follows.

$H_0: \rho = 0$

$H_1: \rho \neq 0$

Table 4: Correlation coefficient between firm size and reaction in the stock price.

<table>
<thead>
<tr>
<th>Variable criteria</th>
<th>Statistical indicators Predictive variable</th>
<th>correlation coefficient</th>
<th>Probability</th>
<th>number of samples</th>
</tr>
</thead>
<tbody>
<tr>
<td>reaction in the stock price</td>
<td>firm size</td>
<td>0.70</td>
<td>0.001</td>
<td>123</td>
</tr>
</tbody>
</table>
According to Table 4, we see that the sample correlation coefficient is equal to 0.70 and the significant level is equal to 0.00 which is less than significant level of the test (0.05), therefore, the null hypothesis of the test is rejected and it is concluded that the test is significant and there is a significant linear relationship between these two variables of test. Also, we see that the correlation coefficient of sample is positive that this represents a direct relationship between firm size and reaction in the stock price.

Discussion and Conclusion:
In this study, we studied the effect of approval of corporate governance guidelines on the reaction to the stock price in Tehran Stock Exchange

5.1 The results of the study hypotheses:
From analysis of the data in the fourth chapter about the assumptions stated the following results have been achieved.

5-1-1. The first hypothesis:
Announcing the company's guidelines is effective on the reaction to the stock price of company.
Since sig value in both tables is smaller than 5%, the H0 is rejected and there is a correlation between these two variables. Pearson is 0.971. So there is a significant positive correlation between the two variables, and the relationship between the two variables is direct. With regard to the obtained values and provided descriptions, so the first hypothesis is confirmed. This result is in line with the result of Armand and Mitchell, 2006.

5-1-2. The second hypothesis:
Communication with stakeholders is effective on the reaction to the stock price of company.
Since sig value in both tables is smaller than 5%, the H0 is rejected and there is a correlation between these two variables. Pearson is 0.670. So there is a significant positive correlation between the two variables, and the relationship between the two variables is direct. With regard to the obtained values and provided descriptions, so the second hypothesis is confirmed. This result is in line with the result of Armand and Mitchell, 2006.

5-1-3. The third hypothesis:
The firm size is effective on the reaction to the stock price of company.
Since sig value in both tables is smaller than 5%, the H0 is rejected and there is a correlation between these two variables. Pearson is 0.70. So there is a significant positive correlation between the two variables, and the relationship between the two variables is direct. With regard to the obtained values and provided descriptions, so the third hypothesis is confirmed. This result is in line with the result of Armand and Mitchell, 2006.

Recommendations for future researchers:
In this section, suggestions will be presented to develop the research and give ideas to the enthusiasts. Other researches can be made:
1. A comparative study of two firms in terms of connection between company's guidelines with the reaction in the stock price.
2. The issues and obstacles facing the implementation of corporate guidelines within an organization.
3. Future research can be done on more specific and more focused variables, and even intermediate variables be used.

7. Limitations of the study:
1. Concerns and fear of the respondents and excessive conservatism of some of them that may influence the precision and accuracy of their answers to questions.
2. wide geographical area and distribution of unit
3. A longitudinal study can provide more comprehensive results.

REFERENCES
